

Administrative Overview

The pool was created by the Washington State Legislature in 1986 to provide a mechanism whereby political subdivisions, public colleges and universities, the State Board for Community and Technical Colleges, and the State Finance Committee may, at their option, invest temporary cash surpluses and take advantage of the volume and expertise of the state's investment program to earn a competitive rate of return while maintaining the security and liquidity of the funds they manage.

The pool is managed and operated solely by the Office of the State Treasurer. In 1995 the Local Government Investment Pool Advisory Committee was created by the state treasurer to advise the treasurer on the operation of the pool.

Eligible investments for the LGIP portfolio are defined by state statute. Further, investment activity for the LGIP is guided by an investment policy which is approved by the state treasurer and follows the standard of the prudent investor. The portfolio is managed in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940, i.e., money market funds.

Participants are offered 100% liquidity on a daily basis, provided notification is made within specified times. The expenses of operating the pool are covered through an administrative fee of 3.5 basis points charged to participants based on their average daily balance in the pool. Fees in excess of the expenses incurred for pool operation are rebated to participants. As of June 30, 2004 there were 424 LGIP participants, with total deposits of \$4.946 billion.

LGIP Performance

Because the LGIP is managed like a 2a-7 money market fund, and the administrative fees charged are low, i.e., 3.5 basis points, the net return of the LGIP closely follows the targeted federal funds rate. Accordingly, the net return on the LGIP during Fiscal Year 2004 ranged from 1.02 to 1.09 percent, reflecting a targeted federal funds rate that remained steady at 1.00 percent during the entire fiscal year. The general management strategy, which was in effect for much of the fiscal year, was to maintain a neutral average life. During the last quarter of the fiscal year the market began anticipating the Fed raising the fed funds rate and short-term rates began to reflect that sentiment. Accordingly, the average life of the LGIP portfolio was lowered in order to more quickly re-price when the fed funds rate was raised. However, regardless of market situations, the LGIP maintains significant liquidity to take advantage of any cheapness in the yield curve and provide liquidity to the LGIP participants.

Monthly statements are produced and distributed to participants, along with an enclosure containing various statistical information, e.g., historical yields and portfolio holdings by security type. A newsletter containing information regarding the LGIP and related investment topics is produced and distributed quarterly. This newsletter is also available online at <http://tre.wa.gov/LGIP/lgip.htm>. For internal monitoring purposes monthly reports are prepared which summarize the pool's activity and performance during the previous month.

The performance benchmark of the LGIP is a group of Rule 2a-7 money market funds with similar investment parameters as the LGIP. Specifically, the average net return of Government Only/Institutional Only Funds as reported in the Money Market Insight, iMoneyNet, Inc., Westborough MA. The similarities in investment parameters of this group of funds provide an excellent benchmark for monitoring the pool's performance. Both the net and gross returns of the

benchmark are monitored and compared to the net and gross returns of the pool. The net return provides an appropriate measure for what pool participants would receive if their funds were invested in the average benchmark fund. The gross return is also used internally by the state treasurer to monitor the performance of the portfolio manager.

Investment Risk Profile

The Local Government Investment Pool is considered extremely low risk. As the pool is operated in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940, the portfolio holdings are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The pool's portfolio is made up of high-quality, highly liquid securities, and its relatively short average maturity reduces the pool's price sensitivity to market interest rate fluctuations. The pool also has a strong degree of asset diversification to minimize risk and maintain adequate rates of return.

The investment activity of the pool is guided by an investment policy, which sets forth the parameters within which the portfolio manager may operate. The policy, which was approved by the state treasurer and certified by the Association of Public Treasurers, is reviewed annually and updated as necessary. Compliance with the policy is monitored by the investment accounting division of the Office of the State Treasurer, which is separate and distinct from the investment division.

While the pool is managed diligently by professional and dedicated personnel to protect against losses from market and credit changes, the pool is not insured or guaranteed by any government. Therefore, the maintenance of principal is not fully assured.